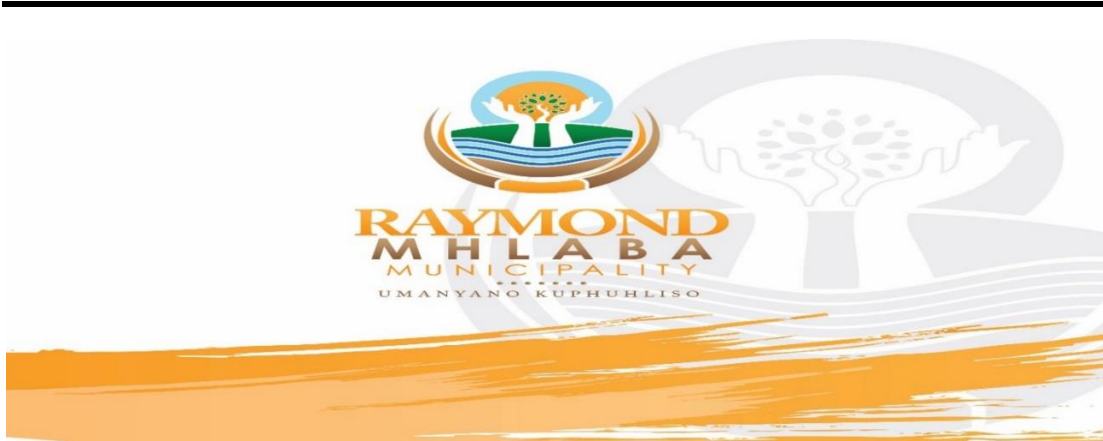




*FINAL BUDGET 2017/2018*



# **RAYMOND MHLABA EC129**

## **2017/18 TO 2019/20 MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS**

*Prepared in terms of the Local Government: Municipal Finance Management Act (56/2003): Municipal Budget and Reporting Regulations, Government Gazette 32141, 17 April 2009.*



## 2. GLOSSARY

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**Adjustments Budget** – prescribed in section 28 of the MFMA. The formal means by which a municipality may revise its annual budget during the year.

**Allocations** – Money received from Provincial or National Government or other municipalities.

**Budget** – the financial plan of the municipality.

**Budget related policy** – policy of a municipality affecting or affected by the budget, such as the tariffs policy, rates policy and credit control and debt collection policy, etc.

**Capital Expenditure** – Spending on assets such as land, buildings and machinery. Any capital expenditure must be reflected as an asset on the municipality's balance sheet.

**Cash flow statement** – a statement showing when actual cash will be received and spent by the municipality. Cash payments do not always coincide with budgeted expenditure timings. For example, when an invoice is received by the municipality it scores as expenditure in the month it is received, even though it may not be paid in the same period.

**DORA** – Division of Revenue Act. Annual legislation that shows the amount of allocations from National to Local government.

**Equitable share** – a general grant paid to municipalities. It is predominantly targeted to help with free basic services.

**Fruitless and wasteful expenditure** – expenditure that was made in vain and would have been avoided had reasonable care been exercised.

**GFS** – Government Finance Statistics. An internationally recognised classification system that facilitates like for like comparison between municipalities.

**GAAP** – General Accepted Accounting Principles. World Wide Accepted Standards.

**GRAP** – Generally Recognised Accounting Practice. The new standard for municipal accounting.

**IDP** – Integrated Development Plan. The main strategic planning document of the municipality.

**KPI's** – Key Performance Indicators. Measures of service output and / or outcome.



## *FINAL BUDGET 2017/2018*

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**MFMA** – The Municipal Finance Management Act – no 53 of 2003.  
The principle piece of legislation relating to municipal financial management.

**MTREF** – Medium Term Revenue and Expenditure Framework. A medium term financial plan, usually 3 years, based on a fixed first year and indicative further two years' budget allocations. Also includes details of the previous and current year's financial position.

**Operating expenditure** – spending on the day to day expenses of the municipality such as salaries and wages.

**Rates** – Local government taxation based on an assessed valued of a property. To determine the rates payable, the assessed rateable value is multiplied by the rate in the rand.

**SDBIP** – Service Delivery and Budget Implementation Plan. A detailed plan comprising quarterly performance targets and monthly budget estimates.

**Strategic Objectives** – the main priorities of the municipality as set out in the IDP. Budgeted spending must contribute towards the achievement of the strategic objectives.

**Unauthorised expenditure** – generally, spending without, or in excess of, and approved budget.

**Virement** – a transfer of budget

**Virement Policy** – The policy that sets out the rules for budget transfers. Virements are normally allowed within a vote. Transfers between votes must be taken and approve by Council.

**Vote** – one of the main segments into which a budget is divided, usually at directorate / department level.



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### **3. MAYORAL BUDGET SPEECH**

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Honourable Speaker, Cllr T. Njobe  
Honourable Chief Whip, Cllr A. W. Ntsangani  
Members of the Executive Committee  
Chairperson of Municipal Public Accounts Committee  
Chairperson of Women's Caucus  
Honourable Councillors,  
Traditional Leaders represented in our Council;

As a way of reminding ourselves on why we are here, it is perhaps imperative to start from the beginning, so let me begin. The Raymond Mhlaba area is site of the Wars of Resistance against the colonial domination. It is through the military strategist of the guerilla warfare of King Jongumsobomvu Maqoma that our people waged relentless fights during the Frontier Wars. Our area is the bedrock upon which resistance of the colonial conquest was severely consolidated and affected.

We reflect on this historical epoch in order to intensify our political appetite as we strive to effect fundamental changes in the socio-economic structure of our society. The previous regimes before the democratic government in 1994 consolidated unequal economic distribution and ownership with race as the determining factor. It is within this context that there is an urgency to prioritize fundamental changes of our economic constitution. The skewed economic ownership which at the core reflects the historical racial patterns of our society cannot be left unattended.

The clarion call within our ranks as the ruling party to radically transform our economy is an urgent task we should champion with rigour and intensity. Our blueprint which envisaged the democratization of our society, the Freedom Charter asserts that "the people shall share in the country's wealth". The Freedom Charter mandates our government to ensure for equal participation of the masses of our people in the



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mainstream economy. The pursuit and realization of the inclusive economic set-up wherein our people are participants should dominate our modus operandi.

The resolve to radically transform our economic set-up should translate into Blacks in general and Africans in particular being central role players in the economic overhaul process. As a ruling party, it is incumbent upon us to generate a fertile economic environment for our people and vulnerable groups in particular. At the core of the radical economic transformation agenda is to effect meaningful material changes in the livelihood of the masses of our people. Thus, we affirm that political power without economic power cannot be celebrated as it negates social transformation.

#### Programmed Director

The National Executive Committee of the ANC affirmed 2017 as the year of President OR Tambo. President OR Tambo would have celebrated 100 years of age had he lived until today. The ANC has dedicated 2017 as the year of OR Tambo Centenary in honour of this colossal revolutionary. President OR Tambo presided over our glorious Movement as its President from 1967-1991 and he was the glue that held the ANC together during its challenging years in exile.

President OR Tambo permanently adhered to the core values of the ANC with incomparable diligence. The resolute leadership of OR Tambo positioned the ANC as the true parliament of the people. Largely due to President OR Tambo's astute leadership, the ANC remained the beacon of hope for the masse of our people over a century. As an incisive leader, President Tambo possessed a sound integrity and served our people with utmost zeal and dedication. It is through his sober leadership that the ANC strongly mastered the importance of uniting the people of this country.

By declaring 2017 as the year of OR Tambo, the ANC is mandating us to return back to basics. The ANC is directing us to follow in the footsteps of OR Tambo by respecting the principles and values of the ANC. The ANC is directing us to be selfless servants



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and to never betray the trust, hopes and aspirations of the masses of our people as OR Tambo did during his entire political life.

We are equally urged to strive for unity of purpose in order to work together so as to pursue the strategic objectives of the ANC which includes the creation of a united, non-racial, non-sexist, democratic and prosperous society. Our collective unity will unite our people against the triple challenges facing our people in the form of poverty, unemployment and social inequality. It is our utmost responsibility that we serve our people with humility and diligence as OR Tambo would want us to do.

As agents of social change, our responsibility lies in being servants of the people, a task we should execute without fail. Our people recently refreshed our mandate by giving the ANC the political power to preside over the local sphere of governance. As deployees of the ANC in these levers of power, our preoccupation should center on the provision of quality service to the people. The masses of our people have given the ANC the political power in order to improve the quality of their lives. This is a noble gesture we should cherish at all material times.

Furthermore, on behalf of the collective leadership the Raymond Mhlaba Municipality named after our revolutionary icon (Oom Ray), we take pride for being entrusted with the responsibility of leading this institution. The ANC has placed upon our collective a mammoth task of safeguarding the well-being of our municipality.

Programme Director, in 2016, as this Council we entered into a contractual agreement with the people of Raymond Mhlaba. This was a contract to transform the lived reality of our people. Not merely to provide basic services, but to actively lead the transformation of the economy and society at large and to [also] build a self-sufficient municipality that is responsive to the needs of its inhabitants.

Moreover, we undertook to advance this contract through the formulation of our vision.



## *FINAL BUDGET 2017/2018*

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**Our vision:** *A municipality championing radical socio economic growth and service excellence.*

**Our vision:** *To be catalyst for service excellence underpinned by transformed spaces for economic development, efficiency, accountability and be responsible to the needs of all communities.*

**Our motto:** *Umanyo Kuhuhliso*

This vision and mission is seeks to promote the municipality as an area seeks to promote economic development and also making or creating an enabling environment for business and investment to flourish.

The municipality prides itself for world-class tourist attraction centers namely; Hogsback, Katberg, Double Drift Game Reserve, Maqoma Heritage just to name a few. The University of Fort Hare which is house by the municipality is also another centre of attraction (with its tentative listing to UNESCO as a World Heritage site), as it recently celebrated its centenary not so long ago. The municipality over the next coming years will identify Tourism as one of the catalyst to drive economic growth and development. Furthermore, tourism alone cannot b exclusively looked without considering heritage given the historic endowment of the municipal area.

Programme Director, economic growth cannot be fully promoted without enterprise development, the municipality over the next 5 years of the current administration commits to support SMME's and Cooperatives and thereby ensuring that they are supporting and trading with municipality. This will assist in alleviating poverty and ensure that the municipality bridges the unemployment gaps. During the Strategic Planning retreat of the municipality, we resolved that enterprise development is key in driving local economy within the municipality. As a result, we further resolved that over the next 5 years about 60% of the municipality's procurement must be directed to local SMME's, Cooperatives, Vulnerable Groups (Youth, Women enterprise) and Military Veterans.



## *FINAL BUDGET 2017/2018*

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Programme Director, our area is heavily affected by unemployment, more especially young people that are supposed to be economically active but are languishing in the periphery of the economic sector. Census results 2011 reveal that the unemployment is at 48%. The municipality intends on creating over 500 employment opportunities directly from its own coffers through the implementation of LED initiatives, as well as, capital related projects. This target has been met in the past, nothing will stop the current council from making sure such employment opportunities are created and local people benefit. Other programmes such as Community Works Programme and Expanded Public Works Programme will also be implemented.

It is essential that we remind ourselves that in order to achieve all this, we need a capacitated, modernized and operational service delivery environment. This Integrated Development Plan and Budget, provides expression to the strategic thrust of local government, which among others seeks to promote good governance, ensure basic service delivery to all our communities, contribute towards job creation and accelerated economic development, and ensure financial sustainability and public participation.

The municipality's total budget amounts to R410,036,355.00 (million). This is the total budget that we have to ensure that we respond to the needs of 172 523 (thousand) inhabitants. About R364,647,005.00 (million) is the total operating revenue and capital transfers amounts to R45,389,300.00 (million). This capital transfer was further boosted by the Department of Sports and Recreations commitment to transfer an amount of R5,000,000.00 (million) to the municipality for upgrading and development of sporting facilities. This is in line to the commitment of that department of intensifying sports development and also assists municipalities in constructing and or refurbishing sports facilities. As a result of this intervention a number of sports fields have been earmarked to be developed *i.e.* Wanderers, Goodwin Park and Nonzwakazi Sports fields (Adelaide and Bedford).

Other capital projects for the year are as follow:



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	Sum of 2017/2018	Sum of 2018/2019	Sum of 2019/2020
CHICKEN ABATTOIR - MIG	1,000,000.00		
COMMUNITY HALL - KHULILE	500,000.00	500,000.00	
COMMUNITY HALL - MAZOTSHWENI	690,000.00		
COMMUNITY HALL - SITYI	500,000.00		
COMMUNITY HALL - THAFENI	690,000.00		
COMMUNITY HALL - ZIBI	500,000.00		
COMMUNITY HALL- QOMFO	690,000.00		
CONSTRUCTION OF MUNICIPAL POUND	500,000.00		
COUNCIL CHAMBERS	2,500,000.00		
DAY CARE - QHOMFU	890,000.00		
DAY CARE CENTRE- FORT BEAUFORT	500,000.00		
DAYCARE CENTRE - LUGWIDINI	450,000.00		
DAYCARE CENTRE - MEVA	440,000.00		
DAYCARE CENTRE - XHUKWANA	500,000.00		
DAYCARE CENTRE - ZIGODLO	500,000.00		
FENCING OF CEMETERIES	560,000.00		
HIGHMAST LIGHTS	1,000,000.00	4,000,000.00	4,000,000.00
INSTALLATION OF ELECTRICAL INFRASTRUCTRE	1,000,000.00	2,500,000.00	2,500,000.00
MAKHUZENI SPORT FIELD	1,500,000.00		
MULTI-PURPOSE CENTRE - MIG	1,150,000.00		
MULTIPURPOSE CENTRE- GOODWIN PARK	1,500,000.00		
NGQOLOWA SPORT FIELD - MIG	1,500,000.00		
PARK - MIG		2,610,200.00	5,000,000.00



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PAVING & GREENING - CHRIS HANI	2,120,000.00		
PAVING AND GREENING - GOLF COURSE	1,500,000.00		
PAVING AND GREENING - NTSELAMANZI	1,000,000.00	1,600,000.00	4,220,000.00
PAVING AND GREENING- HILLSIDE TO NTOLENI	2,376,150.00	3,500,000.00	4,000,000.00
PAVING DEBE-NEK - MIG	1,500,000.00	3,500,000.00	4,000,000.00
PAVING GUGULETHU - MIDDLEDRIFT	1,000,000.00		
PAVING OF STREETS- JAKARANDA	1,500,000.00	3,500,000.00	
RECREATIONAL FACILITIES - HORSE RACING	2,000,000.00		
REGRAVELLING OF ADELAIDE	973,150.00		
REHABILITATION OF WANDERES SPORTFIELD	1,000,000.00		
RESURFACING OF ADELAIDE	2,500,000.00	4,500,000.00	4,500,000.00
RESURFACING OF BEDFORD	2,000,000.00	6,126,850.00	5,000,000.00
SPORT COMPLEX FORT BEAUFORT PHASE 1	2,500,000.00	1,000,000.00	1,634,950.00
UPGRADING OF NONZAKWAZI SPORTSFIELD	300,000.00		
VIC-DEBE NEK	560,000.00		

These projects will be implemented by the municipality, some of them will be insourced, others will be co-sourced and others will be outsourced. Local contractors stand to benefit in to co-sourcing and outsourcing. This co-sourcing and outsourcing has proved to be beneficial to the municipality as we are due to complete about 13 projects before the end of this current financial year. These projects are Community



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Halls and Day Care facilities such as Binfield, Massdorp, Bizana, Dyamala, Chwaru, Mdeni etc.

Apart from these projects enunciated above, the President of the Country in his state of the Nation Address of 2017, committed on resolving the energy challenges as one of the government programmes in this financial year. As a result, the municipality has set aside about 5 000 000.00 (million) for electrification of rural households in an endeavour to reduce the backlog on areas that are currently supplied by ESKOM. This intervention is a result of the municipality's application to Department of Energy on their Integrated National Energy Programme (INEP). On areas where its municipal supply for electricity the backlog is zero.

Programme Director, in our quest to develop our towns, the municipality adopted a revitalization programme, this programme was as a result of the intervention programme for the town of Alice, spearheaded by ASPIRE, Provincial Government, University of Fort Hare and other key stakeholders. This programme is starting with bear fruition, as there are a number projects that are currently taking pace in taking place, there is a further commitment by the Office of the Premier to address the bulk infrastructure, storm water drainage systems and road networks. As a result of this sterling progress, the municipal council took a conscious decision of cascading this programme to other towns of the municipality. The municipal entity Raymond Mhlaba Economic Development Agency has been tasked with this programme.

Programme Director, we express our sincere gratitude to residents and businesses that consistently pay their municipal accounts. Their contributions go a long way towards expanding and sustaining service delivery and will assist in ensuring that we realize our vision. Moreover, we are quite aware of many households who cannot pay, we will continue to assist them in our indigent programme. The provision of free basic services and indigent subsidy has increased in our budget in comparison to the previous years. However, our message is unambiguous: *“abantu abakwaziyo ukubhatala inkonzo zika masipala, bayacelwa ukaba bazibhatale”*.



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Consultation on tariffs was done throughout the municipal area with all the rate payers, the institution will ensure that over a period of three years it does standardise tariffs to accommodate former Nxuba residents. Such disparities are inevitable for now, and 100% increase for residents will cripple the ordinary households hence the three-year period for staggering them in to be at the same standard.

Programme Director, earlier in this speech we referred to a Contract, now that we have tabled this contract, wherein key priority programmes were identified in an effort to confront the challenges that are continuously faced by the people we serve. It is with confidence that today we can inform the people of Raymond Mhlaba that, as we enter 2016, that contract remains very much in force. The administration continues to manage the implementation of the IDP and Budget programmes that were agreed upon, as well as the set key performance targets. The contract has certain baseline conditions must be met. Raymond Mhlaba remains largely the heritage hub of the Eastern Cape. It is for this reason that it is non-negotiable for us to continuously strive for excellence in our delivery of basic services.

As I conclude, I wish to thank the Municipal Council, Traditional Leaders and all the rate payers, further urge and encourage every resident, every business, every community and non-governmental organisation to take this opportunity to read and engage with and provide feedback to us on our IDP. For it is only with your commitment to work together with us that we can achieve our Municipal Vision.

Thank you!



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#### **4. BUDGET RELATED RESOLUTIONS**

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On 29 March 2017 the Council of Raymond Mhlaba Local Municipality will meet in the Council Chamber to consider the Draft IDP and Annual budget of the municipality for the financial year 2017/18. The Council to approved the following resolutions:

1. The council to adopt the Draft IDP for 2017/2018 financial year as a strategic document to guide developmental initiatives and programmes for duration of the period enunciated therein,
  - 1.1.1. The organizational structure for 2017/2018 financial year, which is an annexure to the IDP.
  - 1.1.2. The IDP and Budget 2017/2018 should be made public in terms of section 21A and 21B of the Municipal Systems Act.
  - 1.1.3. The copy of the IDP and Budget 2017/2018 be submitted to the MEC for Local Government in terms of section 32 of the Municipal Systems Act.



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## **5. OVERVIEW OF THE BUDGET**

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### **5.1 Balanced and Credible Budget**

The following National Treasury guidelines have been taken into consideration when preparing the budget:

- Tabling a balance and credible budget that is based on realistic estimates of revenue to be collected, taking into account both actual revenue collected in the past financial year, and revenue projects for the current financial year.
- The inclusion of all grants in the annual budget, on both the revenue and expenditure side;
- The presentation of three-year capital and operating budgets;
- The revision of the IDP to be consistent with the three-year budget;
- The maximum expenditure growth limit of 6.1% to stay within inflation targets as determined by National Treasury. The growth limit applies to own revenue sources only and excludes intergovernmental grants, for both the capital and operating budgets.
- Increases in rates and taxes have been kept within inflation targets, in support of government's macro-economic objectives and investor confidence.

### **Funding the Budget**

Section 18(1) of the MFMA states that an annual budget may only be funded from:

- Realistically anticipated revenues to be collected;
- Cash backed accumulated funds from previous year's surpluses not committed for other purposes; and
- Borrowed funds, but only for the capital budget



## *FINAL BUDGET 2017/2018*

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Achievement of these requirements in totality effectively means that council has “balanced” its budget by ensuring that budgeted outflows will be offset by a combination of planned inflows.

### **Credible Budget**

Amongst other things, the following has been taken into consideration to ensure that this is a credible budget;

- Only activities consistent with the revised IDP have been included in the budget, taking into consideration the financial constraints of the municipality;
- It is achievable in terms of the agreed services delivery and budget implementation plan and performance targets;
- Contains revenue and expenditure projection that are consistent with current and past performance
- Does not jeopardize the financial viability of the municipality (ensures that the financial position is maintained within generally accepted prudential limits and that obligations can be met in the short, medium and long term; and
- Provided managers with appropriate levels of delegation sufficient to meet their financial management responsibilities.

The budget sets out certain service delivery levels and associated financial implications, therefore the community should realistically expect to receive these promised service delivery levels and understanding the associated financial implications.

## **5.2 Government Priorities Considered**

### **THE MTREF**

The budget has been prepared based on the new requirements and significant progress has been made on the implementation thereof. However, some processes



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are still being developed to ensure full compliance, which include activity based costing, asset management, system shortcomings, human capacity building amongst others.

Although the fact that our municipality is categorized as Low Capacity Municipality, it is also of outmost importance to ensure that Council complies with all legislative requirements, this entails the channelling of fund which would ordinarily be utilized for services delivery to the implementation of the legislative requirements.

In President Jacob Zuma's State of the Nation Address of 2017, he indicates government key priorities to be:

- Resolving the energy challenge
- Revitalising agriculture- Agri-Parks Programme, aimed at increasing the participation of small holder farmers in agricultural activities
- Creation of Job Opportunities
- Infrastructure investments
- Encouraging private investments
- Unlocking the potential of SMME's, cooperatives, townships and rural enterprise;
- Moderating work conflict

Therefore, in framing this budget, priority has been given to objectives and priorities of government based on the IDP to be adopted by council.

A bulk electricity purchase has increased drastically over the past two years as result of NERSA and ESKOM tariff increases. Bulk electricity price increase for 2017/18 from ESKOM will be 8% while municipalities budgeted for an increase of 10%, as this depends upon final approval by NERSA.



## *FINAL BUDGET 2017/2018*

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The municipality has set aside R5 000 000 for electrification of rural areas in an attempt to reduce the backlog on access to electricity of communities.

The municipality has also embarked on reduction of electricity losses so as to attain almost full recovery of electricity costs, which in turn will result in timeous payments of the electricity provider.

In an attempt to addressing challenges faced by the underprivileged, as well as the successful implementation of the indigent campaign, the provision of free basic services and indigent subsidy are increasing in our new budget in comparison to previous years. Electricity income however is also increasing due to the higher demand based on more households having access to electricity, expansion of the municipality and the increase in municipal tariff.

The municipality is working towards the achievement of realising a surplus in future. The municipality will enter into a new agreement with Eskom for the recurring debt that was not catered for in the adjustment budget as soon it honours the current payment arrangement. Hence, there is an amount of R 50 000 000, that is set aside for Bulk purchase which includes the portion for the monthly usage.

The area of focus in the coming financial year will be mainly in collecting revenue, which is mainly on rates revenue and service charges, to ensure the financial viability of the municipality since there is an indication that Raymond Mhlaba Municipality is very much grant dependant at this stage. We are also embarking on reducing/management of Electricity losses due to illegal bridging and tempering in our areas.

The effective management of assets will also be a focus area to ensure that all assets are maintained and repair based on their conditions taking into account the cost effectiveness thereof. The Municipality is in a process of assessing the current fleet assets to ensure that all those assets that are no longer having economic value are disposed to avoid spending much on repairs and maintenance.



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More budget related policies/strategies will be developed to assist the municipality to control its revenue and expenditure in future. Changes were made to the existing budget related policies.



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## **6. EXECUTIVE SUMMARY**

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### **INTRODUCTION**

With the compilation of the 2017/18 Medium-Term Revenue and Expenditure Framework (MTREF), each department had to review its business planning processes taking into account their IDP objectives and individual departmental strategies. Business planning links back to priority needs and master planning, and essentially inform the detail operating budget appropriations and three-year capital programme. National Treasury's MFMA Circular No. 86 and 87 was mainly used to guide the compilation of the 2017/18 MTREF.

The 2016 Medium Term Budget Policy Statement emphasised that the global recovery from the 2008 financial crisis remains precarious, with growth forecast at 3.1 per cent in 2016 and 3.4 per cent in 2017. Domestic GDP growth for 2016 was forecasted at 0.9 per cent at the time of the 2016 Budget and it has since been revised to 0.5 per cent. It is anticipated that factors such as a more reliable electricity supply, improved labour relations, low inflation, a recovery in business and consumer confidence, stabilising commodity prices and stronger global growth will increase growth to 2.2 per cent by 2019. Furthermore, the country has experienced a decline in mining growth and weakened agricultural outputs as a result of the drought while growth in transport and telecommunications, electricity, gas and water have declined because of weakened demand. A conservative approach was thus followed for projecting revenue. Electricity supply constraints continues to limit growth and daunt investment. Exchange rate depreciation is contributing to a higher inflation outlook during 2016. These circumstances make it essential for municipalities to reprioritise expenditure and implement strict cost-containment measures.



## *FINAL BUDGET 2017/2018*

The compilation of the MTREF therefore remains a huge challenge to balance the budget between the limited revenue resources available and the immense need to provide quality service delivery to our community. Tariff increases must be limited to be within the affordability levels of our community and must still promote economic growth to ensure financial sustainability.

The municipality is not in a healthy financial position, however, it needs to at least stabilise and further strive to continuously better its financial position, coupled with acceptable levels of service delivery at affordable tariffs. The retention of sufficient cash-backed reserves is critical for the long-term sustainability of the municipality, and to this end the municipality is unable to achieve this objective. The municipality will try to build its cash-backed reserves by ensuring that all non-cash items are budgeted for and are cash-backed. This will be achieved by ensuring that the municipality stick to its plan and also embark on projects that are revenue generation in nature.

**Table 1 Consolidated Overview of the 2017/18 MTREF (R'000)**

Description	Budget Year 2016/17	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
	Adjusted Budget			
<b>R thousands</b>				
Total Revenue	343 527	364 647	371 293	391 230
Total Expenditure	375 483	364 647	371 293	391 230
Total Surplus /(Deficit)	<b>(31 956)</b>	<b>–</b>	<b>–</b>	<b>–</b>
Total Capital Revenue Recognised	39 971	45 389	39 937	42 105
Total Surplus/ (Deficit) for the year	<b>8 015</b>	<b>45 389</b>	<b>39 937</b>	<b>42 105</b>

### **OPERATING REVENUE AND EXPENDITURE BUDGET**

The municipality's total budget amounts to R 410 036 355. Total operating revenue amounts to R364 647 055 and Capital transfers of R45 389 300. Total operating revenue has increased by 21,120 million for the 2017/18 financial year when compared to the 2016/17 Adjustments Budget. For the two outer years, operational revenue decreased by 6 646 million and 19 937 million respectively.



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The increase is mainly due on the anticipated revenues to be collected on property rates and service charges.

Total operating expenditure budget amounts to R 364 447 055 and translates into a balanced budget before capital transfers. When compared to the 2016/17 Adjustments Budget, operational expenditure has decreased by 2,89 per cent in the 2017/18 budget

The municipality remains committed to a large capital programme with a significant portion funded by grants from National Government.

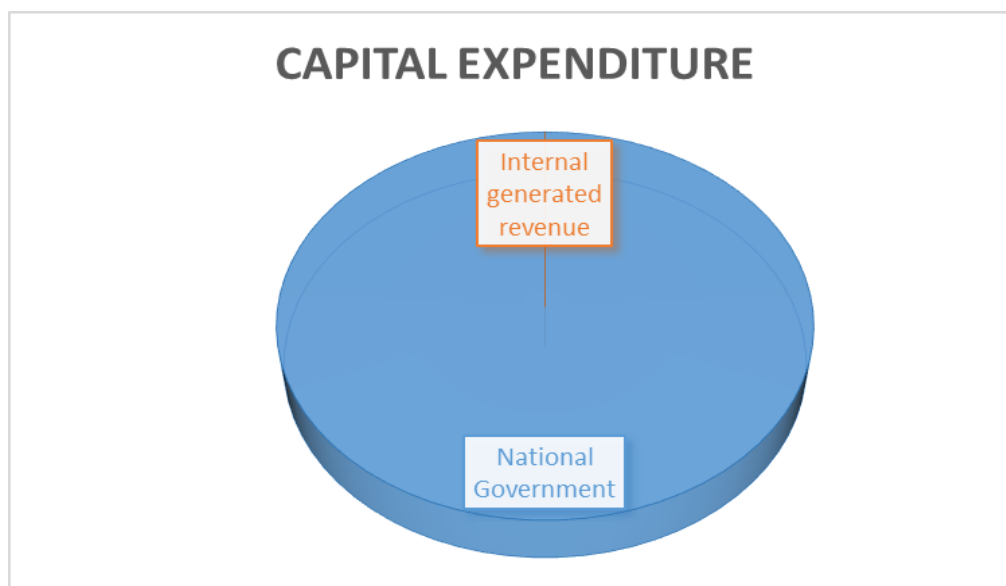
**Table 2 Total Capital Funding of the 2016/17 MTREF (R'000)**

Description	Budget Year 2016/17	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
	Adjusted Budget			
<b>R thousands</b>				
<b>Funded by</b>				
National Government	38 471	45 389	37 837	39 855
Transfers recognised- Capital	<b>38 471</b>	<b>45 389</b>	<b>37 837</b>	<b>39 855</b>
Internal generated revenue	9 527	–	2 100	2 250
Total Surplus/ (Deficit) for the year	<b>47 998</b>	<b>45 389</b>	<b>39 937</b>	<b>42 105</b>

The capital budget of R45,389 million (including R2 million for Repairs and maintenance capital) for 2017/18 is less when compared to the 2016/17 Adjustment Budget. The capital programme decreases to R39,937 million in 2018/19 and R42,105 million in 2019/20. The decrease can mainly be attributed to the decrease in proposed expenditure to be financed from internally generated funds and a decrease in capital transfers – a trend that is set to continue throughout the MTREF.

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The municipality did not allocate a portion of the capital budget to be funded from own revenue due to the fact that the municipality does not have cash-backed reserves to fund its capital. The provision can be made in consultation with other departments to reduce their expenditures and be encourage where necessary to outsource funding to implement other project.



As indicated above no borrowing for capital projects is planned. The municipality is still well within the limits of its borrowing capacity, but will raise very limited leases in the near future in order to curtail possible rising debt servicing costs.



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## **7. Key Budget assumptions**

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### **External factors**

Domestically, after five years of strong growth, during which about two million jobs were created, our economy shrank fast and millions of people lost their jobs. It is expected that recovery from this deterioration will be slow and uneven and that growth for 2017 will be minimal with a slightly better growth in the outer years.

Owing to the economic slowdown, financial resources are limited due to reduced payment levels by consumers. This has resulted in declining cash inflows, which has necessitated restrained expenditure to ensure that cash outflows remain within the affordability parameters of the Municipality's finances.

### **General inflation outlook and its impact on the municipal activities**

There are five key factors that have been taken into consideration in the compilation of the 2017/18 MTREF:

- National Government macro-economic targets;
- The general inflationary outlook and the impact on Municipality's residents and businesses;
- The impact of municipal cost drivers;
- The increase in prices for bulk electricity; and
- The increase in the cost of remuneration.

### **Collection rate for revenue services**

The base assumption is that tariff and rating increases will increase at a rate of CPI over the long term. It is also assumed that current economic conditions, and relatively controlled inflationary conditions, will continue for the forecasted term.



## *FINAL BUDGET 2017/2018*

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The rate of revenue collection is currently expressed as a percentage of annual billings. The collections of the municipality on outstanding debtors are anticipated to increase during the coming financial period due to implementation of effective credit control and the revenue enhancement strategy and financial recovery plan to be developed. It should however be noted that the revenue budgeted for are 100% based on billing and therefore we need to explore and implement effective controls to increase our billing capacity to decrease our current grant dependency. Hence the municipality is anticipating to collect the actual revenue of R 128 915 980.

### **Growth or decline in tax base of the municipality**

Debtors' revenue is assumed to increase at a rate that is influenced by the consumer debtors' collection rate, tariff/rate pricing, real growth rate of the municipality, household formation growth rate and the poor household change rate.

### **Tariff increases**

It should be noted that the tariffs are attached as an annexure to the budget due to the complexity of the tariffs versus the budget schedule.

- Service charges – Electricity tariffs will increase by 10% for 2017/2018 financial subject to NERSA approval. This is based on the average cost of rendering the service.
- Property rates tariffs – there will be no changes on the property rates tariffs for the former Nkonkobe municipality. However, there will be three additional categories under residential category. Decision was taken that former Nxuba tariffs on property rates must match the ones for former Nkonkobe over the next three years. Therefore, an increase of 25% on property rates tariffs will be imposed. It should also be noted that for business category, the tariff will increase by 100% to match the tariff for former Nkonkobe municipality.



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- General (Other Tariffs) – Former Nkonkobe tariffs will increase by the CPI rate of 6% and for former Nxuba, tariffs (Phase in) by 50% in order to make them cost related.
  - Interest on investments – We aim to put more monies on our short term investment accounts resulting in an increase of interest received.
  - Interest on outstanding debtors – Based on the more effective implementation of the credit control and debt management policy it is expected to decrease.

### **Salary increases and Council Remuneration**

There is a collective agreement on salary increases in place for the budget year. Based on the circular and the notch increase we have budgeted for 6% plus 1% per cent increase for the 2017/2018 period and 7% for senior managers.

The budget for the council remuneration has been increased by 6% compared for 2017/2018 financial year.

### **Impact of national, provincial and local policies**

Integration of service delivery between national, provincial and local government is critical to ensure focussed service delivery and in this regard various measures were implemented to align IDPs, provincial and national strategies around priority spatial interventions. In this regard, the following national priorities form the basis of all integration initiatives:

- Creating jobs;
- Enhancing education and skill development;
- Improving Health services;
- Rural development and agriculture; and
- Poverty Alleviation



To achieve these priorities integration mechanisms are in place to ensure integrated planning and execution of various development programs. The focus will be to strengthen the link between policy priorities and expenditure thereby ensuring the achievement of the national, provincial and local objectives.

#### **Ability of the municipality to spend and deliver on the programmes**

It is estimated that a spending rate of 100% will be achieved over the MTREF period.

Budgets are prepared in an environment of uncertainty. To prepare a meaningful budget, assumptions are made about internal and external factors that could influence the Annual Budget.

#### **Other assumptions:**

- **Investments**

Raymond Mhlaba municipality does not have long-term investments, only call accounts which are included in the cash and cash equivalents as per our annual financial statements.

- **Borrowing**

The municipality is not in a process of applying for any loans.

#### **Service delivery**

As part of the improvement of service delivery, more strategies will need to be developed and implemented to ensure that we meet the needs of the community and eliminates factors that have a negative effect on councillors' finances.



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### **Implementation of GRAP and MSCOA**

The municipality will fully implement GRAP in 2016/2017 financial year, since it is a new entity. FMG (grant received from National Treasury) and own revenue is used to maintain compliance with GRAP. In the 2017/2018 budget, a budget has been set aside to assist with implementation of mSCOA and GRAP to ensure that the municipality complies.

The project also involves the review of the current Asset Management Policy to be aligned to GRAP standards and other policies.

### **Internal Charges**

The current method of cost recovery between service departments must be reviewed in terms of Activity Based Costing Principles and Standards. Activity based costing principles if correctly applied, will ensure that all costs applicable to a specific service are recorded. This means that tariff setting will be improved. Our current financial system cannot perform this function and due to capacity problems within the finance department, this function will be done by the affected departments.

### **Functions outsourced and functions performed on agency basis**

- No municipal services have been contracted out to section 21 or Proprietary Limited companies other than there one for external securities.

Agent for Department of Roads and Transport on certain e-Natis transactions.

### **Operating Budget**

The 2017/2018 operating expenditure budget amounts to R364,647 million (including non-cash items).

### **Capital Budget**

The 2017/2018 capital budget amounts to R45,389,130 million. (Including MIG). The municipality has allocated an amount of R 2,243,850 million (5% of MIG) to PMU and an amount of R2,243,850 million (5% of MIG) to Local Economic Development (LED). Also, an amount of R2,000,000 million has been set aside for repairs and maintenance.



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### **Employee cost and other expenditure to total Operating expenditure**

The total employee cost for 2017/2018 including Councillor Allowance amounts to 53% of the total operating expenditure (Excluding non-cash items). It should be noted that the casual wages, standby allowances and overtime are included as part of employee related cost. Furthermore, the increase in employee related costs does not cater for the salaries that are being funded by grants.

Total operating expenditure amounts to R364,647 million in 2017/18. The municipality has set aside an amount of R 5,170 million, R 2 million being funded from MIG and R3,170 million for repairs and maintenance. It should furthermore be noted that the Transfers and grants are R 21, 200 million of the total operating expenditure, and are based on the free basic services to indigents in our community and grants paid to Raymond Mhlaba agency. The municipality has set aside an amount of R 2 000 000 for the support of its entity.



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### **8.1 BUDGET TABLES**

#### **(Annexure A)**

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<b>8.1.1</b>	A1 Budget Summary
<b>8.1.2</b>	A2 Budgeted Financial Performance (revenue and expenditure by standard classification)
<b>8.1.3</b>	A3 Budgeted Financial Performance (revenue and expenditure by detail standard classification)
<b>8.1.4</b>	A4 Budgeted Financial Performance (revenue and Expenditure by Municipal vote)
<b>8.1.5</b>	A4 Budgeted Financial Performance (revenue and expenditure by detail municipal vote)
<b>8.1.6</b>	A4 Budgeted Financial Performance (revenue and expenditure)
<b>8.1.7</b>	A5 Budgeted Capital Expenditure by vote, detailed standard classification and funding
<b>8.1.8</b>	A5 Budget Capital expenditure by vote, detailed standard classification and funding
<b>8.1.9</b>	A6 Budgeted Financial Position
<b>8.1.10</b>	A7 Budgeted Cash Flows
<b>8.1.11</b>	A8 Cash backed reserves / accumulated surplus reconciliation
<b>8.1.12</b>	A9 asset management
<b>8.1.13</b>	A10 Basic Service delivery measurement

### **8.2 BUDGET SUPPORTING TABLES**

<b>8.2.1</b>	SA 1 Supporting detail to “Budgeted Financial Performance”
<b>8.2.2</b>	SA2 Matrix Financial Performance Budget (revenue source/expenditure type and departments)
<b>8.2.3</b>	SA3 Supporting detail to “Budgeted Financial Position”
<b>8.2.4</b>	SA4 Reconciliation to IDP strategic objectives and budget (revenue)
<b>8.2.5</b>	SA 5 Reconciliation to IDP Strategic objectives and budget (operating expenditure)
<b>8.2.6</b>	SA6 Reconciliation to IDP strategic objectives and budget (capital expenditure)
<b>8.2.7</b>	SA7 Measurable performance objectives
<b>8.2.8</b>	SA8 Performance Indicators and benchmarks
<b>8.2.9</b>	SA9 Social, economic and demographic statistics and assumptions
<b>8.2.10</b>	AS10 funding measurements
<b>8.2.11</b>	SA11 Property rates summary
<b>8.2.12</b>	SA 12 & 13 Property rates by category (current year) and service tariffs
<b>8.2.13</b>	SA14 Housing bills
<b>8.2.14</b>	SA15 Investment particulars by type
<b>8.2.15</b>	SA16 Investment particulars by maturity
<b>8.2.16</b>	SA17 Borrowing
<b>8.2.17</b>	SA18 Transfers and receipts
<b>8.2.18</b>	SA19 Expenditure on transfers and grant programme



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<b>8.2.19</b>	SA20 Reconciliation of transfers, grant receipts and unspent funds
<b>8.2.20</b>	SA21 Transfers and grants made by the municipality
<b>8.2.21</b>	SA22 Summary councillor and staff benefits
<b>8.2.22</b>	SA23 Salaries, allowances & benefits (political office bearers /councillors/senior managers)
<b>8.2.23</b>	SA24 Summary of personnel numbers
<b>8.2.24</b>	SA25 Budgeted monthly revenue and expenditure
<b>8.2.25</b>	SA26 Budgeted monthly revenue and expenditure (municipal vote)
<b>8.2.26</b>	SA27 Budgeted monthly revenue and expenditure (standard classification)
<b>8.2.27</b>	SA28 Budgeted monthly Capital Expenditure (municipal vote)
<b>8.2.28</b>	SA29 Budgeted monthly Capital expenditure (standard classification)
<b>8.2.29</b>	SA30 Budgeted Monthly cash flow
<b>8.2.30</b>	SA31 Entities not required
<b>8.2.31</b>	SA32 lost of external mechanisms
<b>8.2.32</b>	SA33 Contracts having future budgetary implications
<b>8.2.33</b>	SA34a Capital expenditure on new assets by asset class
<b>8.2.34</b>	SA34b Capital expenditure on the renewal of existing assets by asset class
<b>8.2.35</b>	AS34c Repairs and maintenance expenditure by asset class
<b>8.2.36</b>	AS35 Future financial implications on the capital budget
<b>8.2.37</b>	SA36 Detailed capital budget
<b>8.2.38</b>	SA37 Projects delayed from previous financial years



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## **9. OVERVIEW OF THE ANNUAL BUDGET PROCESS**

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### **Budget Process Overview**

#### Schedule of Key Deadlines relating to budget process [MFMA s 21(1)(b)]

The Act requires the formal budget process to start with the tabling by the Mayor in Council of a schedule showing the key budget deadlines. This was prepared and tabled during a Council meeting in August 2016.

#### Political oversight of the budget process

Section 53 of the MFMA requires that the Mayor provides general political guidance over the budget process and the priorities that must guide the preparation of the budget.

#### Process used to integrate the review of the IDP & preparation of the budget

Departments were required to give input and their needs to the budget. The budget process is integrated with the review of the IDP through the IDP review mechanism. The outcome of consultation feeding into the IDP review is taken into account in the budget process.

This budget had also better input from government departments in compared to previous years

#### Process for tabling the budget in Council for consultation

A statutory period of consultation follows the tabling of the budget in Council on 29 March 2016. Meetings with the local community should be advertised in the local press following the tabling of the draft budget.

The Mayor had considered the outcomes of these consultation meetings.

#### Process for approving the budget

The budget must be approved by Council by 31 May 2016. The consolidation of the two municipality was approved on the 29 of August 2016.

#### Process and media used to provide information on the budget to the community

All budget documentation, the MTREF together with tariffs and policies, was made available at Council libraries and offices for inspection.

Advertisements informing the public about the availability of these documents and the schedules for the IDP/Budget public hearings was published in all local newspapers and put up at municipal offices and libraries.



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## **10. OVERVIEW OF ALIGNMENT OF ANNUAL BUDGET WITH THE INTEGRATED DEVELOPMENT PLAN**

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The IDP has been prepared for the Medium Term Revenue and Expenditure period which includes instances up to 2020/2021. A Budget and IDP Process Plan was developed and approved by Council during August 2016 Council meeting. The whole development of the Budget and IDP was based on the Budget and IDP Process Plan.

All the wards were visited and community needs and inputs were sought. All relevant stakeholders were consulted through the Intergovernmental Relations and Steering Committee meetings. The Draft Integrated Development Plan of 2017/18 was developed in partial response to:

- The requirements of compliance with the Local Government Municipal Systems Act (MSA) 32 of 2000 which prescribes for the review of municipal integrated development plan (IDP), in which it prescribes for the municipality to:
- Identify the gaps that warrant review in its IDP and revise accordingly
- Review its performance and incorporate the outcomes of the review in its IDP review
- Comments raised by MEC on the previous IDP
- Queries raised by the auditor general in the municipality's annual statements which bear relevance for IDP and PMS linkages
- A gap analysis conducted on the current IDP document pointed to the following key areas for specific attention and improvement during the formulation of this IDP.

### **10.1 Updating of the planning data**

Updated statistical information has been sourced from Global Insight 2011 and used to improve our demographic projections. Further, we have collected updated planning information from sector departments and that has necessitated few changes in the document. Also, we have taken into account quarterly statistics information.

### **10.2 Linkages between IDP, Budget and PMS**

This IDP has been designed in such a way to ensure clear alignment between its IDP KPAs, development objectives and Targets. The document provides both the framework adopted for managing our performance management and the actual commitments in terms of the scorecards describing a set of indicators and targets for our performance management.



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## **11. OVERVIEW OF BUDGET RELATED POLICIES AND AMENDMENTS**

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Listed below with a brief description are the municipality's budget related policies. The **detailed policies** are not included in this budget documentation. However, they are available at the office of the Municipal Manager.

This section is trying to give the user of this budget document a broad overview of the budget policy framework and highlights the amended policies by council resolution.

### **11.1 Budget Policy – New policy for Raymond Mhlaba was developed**

#### **Purpose/Basic areas covered by policy/main objective**

The objectives of the budgeting policy are to set maximum expenditure limits for the budget or each component thereof, for the Municipality. A Municipality may only incur expenditure in accordance with its approved budget.

### **11.2 Tariff Policy – New policy was developed and amendments were made**

#### **Purpose/Basic areas covered by policy/main objective**

The purpose of this tariff policy is to prescribe the accounting and administrative policies and procedures relating to the determining and levying of tariffs by Raymond Mhlaba Municipality.

### **11.3 Credit Control and Debt Collection Policy – New policy was developed and amendments were made**

#### **Purpose/Basic areas covered by policy/main objective**

The Local Government: Municipal Finance Management Act, 2003, Act 56 of 2003 contains legal prescriptions for sound and sustainable management of the financial affairs of municipalities. Section 97 deals with revenue management, inter alia with effective revenue collection systems and the preparation of accounts for service charges.

A Credit Control and Debt Collection Policy is required in order to give effect to requirements of Act 56, generally and specifically with revenue collection.

### **11.4 Cash Management and Investment Policy – No amendments were made**

#### **Purpose/Basic areas covered by policy/main objective**

In order to ensure sound and sustainable management of the cash resources of the municipality this policy addresses all principles and processes involved in cash and investment management.



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**11.5 Property rates policy – New policy was developed and amendments were made**

Setting of criteria for establishing rates tariffs.

**11.6 Accounting Policy – No amendments were made**

**Purpose/Basic areas covered by policy/main objective**

Accounting policy guides the preparation of the Annual Financial Statements and is reviewed each year during the preparation to ensure compliance with GRAP standards and any guiding principles issued by Accounting Standards Board and National Treasury.

**11.8 Supply Chain Management Policy – New amendments were made for Raymond Mhlaba municipality policy**

**Purpose/Basic areas covered by policy/main objective**

The objective of this policy is to ensure that the Municipality's procure goods and services at all times comply with the relevant laws and best practices.

**11.9 Fixed Assets Management Policy – New policy was developed and amendments were made**

**Purpose/Basic areas covered by policy/main objective**

The fixed assets management policy is designed to ensure management of Municipal assets in efficient and effective manner with regard to acquisition, utilisation, control, maintenance and disposal of assets. The policy guides directorates/departments and staff in their responsibility and duties for control of their assets.

**11.10 Funding and Reserves Policy – No amendments were made**

**Purpose/Basic areas covered by policy/main objective**

This policy aims to set standards and guidelines towards ensuring financial viability over both the short- and long term and includes funding as well as reserves requirements.

**11.11 Policy on the Use and Application of Information Technology – No amendments were made**

**Purpose/Basic areas covered by policy/main objective**

The purpose of this policy is to provide guidance to all current and future users of the information technology (IT) network, consisting of a variety of servers, personal computers, network printers and direct printers, to ensure that the system is properly managed, optimally used, applied to the best advantage of the municipality, and to prevent abuse of the system. This policy cannot lay down rules to cover every



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possible situation. Instead, it is designed to express the municipality's philosophy and set out the general principles that employees should apply when using computers.

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## **12. OVERVIEW OF BUDGET FUNDING AND FUNDING COMPLIANCE**

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### **12.1 Funding the Budget**

Section 18(1) of the MFMA states that an annual budget may only be funded from:

- Realistically anticipated revenues to be collected;
- Cash backed accumulated funds from previous years' surpluses not committed for other purposes; and
- Borrowed funds, but only for the capital budget referred to in section 17.

Achievement of this requirement in totality effectively means that a Council has 'balanced' its budget by ensuring that budgeted outflows will be offset by a combination of planned inflows.

### **12.2 A credible budget**

Amongst other things, a credible budget is a budget that:

- Funds only activities consistent with the revised IDP and vice versa ensuring the IDP is realistically achievable given the financial constraints of the municipality;
- Is achievable in terms of agreed service delivery and performance targets;
- Contains revenue and expenditure projections that are consistent with current and on past performance and supported by documented evidence of future assumptions;
- Does not jeopardise the financial viability of the municipality (ensures that the financial position is maintained within generally accepted prudential limits and that obligations can be met in the short, medium and long term); and
- Provides managers with appropriate levels of delegation sufficient to meet their financial management responsibilities.

A budget sets out certain service delivery levels and associated financial implications. Therefore, the community should realistically expect to receive these promised service delivery levels and understand the associated financial implications. Major under spending due to under collection of revenue or poor planning is a clear example of a budget that is not credible and unrealistic.



Furthermore, budgets tabled for consultation at least 90 days prior to the start of the budget year should already be credible and fairly close to the final approved budget.

### **12.3 Fiscal Overview of Raymond Mhlaba Municipality**

Over the past financial years via sound and strong financial management, Raymond Mhlaba Municipality has moved internally to a position of relative financial stability. There is also a high level of compliance with the Municipal Finance Management Act and other legislation directly affecting financial management.

### **12.4 Long term financial planning**

The municipality's financial position is not financial sound and this budget further ensures that. The municipality plans to continue exercising strict financial management and ensuring a cash flow which meets the requirements.

However, due to the size and tax base of the municipality, the municipality is starting to reach its ceiling in terms of its own funds and equitable grant to help fund its budget. Priorities need to be prioritised as demands will always outscore resources available.

### **12.5 Sources of funding**

The main sources of funding can be found under SA table 1.

However, the main own funding sources of the municipality comes from property rates and service charges such as electricity and refuse. The municipality is very dependent on the Equitable Share allocation as a funding source of its operating budget. The municipality does not have any investments and all money is needed on a real "immediate" scenario. This is why money is rather put in short-term investments to obtain a better interest rate than to leave it in operating account.

### **12.6 Sale of assets**

Municipality will also use annual stock and asset register to determine absolute and redundant assets and to make a recommendation to council on what to do with it.



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### **13. GRANT EXPENDITURE AND ALLOCATIONS**

The grants programme its expenditure on transfers can be found under SA table 19.

Details of each grant are shown in the schedule that follows:

<b>Name of Grant</b>	<b>Operating/capital</b>	<b>Allocation authority/department</b>	<b>Purpose of grant</b>
Library Services	Operating	Province/ Cultural Affairs and Sport	To enable public libraries to render an improved service by addressing staffing shortages and operating needs.
Councillor remuneration	Operating	National Treasury	To assist municipalities with the cost of cllr remuneration
Local Government Financial Mng grant (FMG)	Operating	National Treasury	To promote and support reforms in financial mng by building capacity in municipalities to implement MFMA
Municipal Infrastructure Grant (MIG)	Operating/ Capital	COGTA	To supplement capital finance for basic municipal infrastructure. The operating portion is utilised for project management unit.
Municipal Demarcation Transition Grant	Operating	Department of Cooperative Governance and Traditional Affairs	Facilitate the successful implementation of major boundary changes that will take effect at the time of the 2016 local government elections



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Equitable Share	Operating	National Treasury	The equitable share of national revenue in accordance with the requirements of the Constitution.
EPWP	Incentive	National Public works	To assist with job creation

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### **14. ALLOCATIONS AND GRANTS MADE BY THE MUNICIPALITY**

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Any allocation made to an outside body must comply with the requirements of section 67 of the MFMA. This stipulates that before transferring funds to an outside organisation the Municipal Manager, as Accounting Officer, must be satisfied that the organisation or body has the capacity to comply with the agreement and has adequate financial management and other systems in place.

National Treasury further indicated in MFMA circular 51 that no more “discretionary” funds may be appropriated in the budget due to such funds not being transparent during the consultation process.

The municipality did not budget to make any grant transfers to any outside organisation/body or other organ of state other than the Raymond Mhlaba agency (NEDA) and indigent relief as included per Treasury guidance under transfers and grants paid.



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## **15. COUNCILLOR ALLOWANCES AND EMPLOYEE BENEFITS**

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Supporting tables SA 22 and SA 23 summarises the salary, allowances and benefits over the MTREF.

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## **16. SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN (SDBIP)**

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## **17. INVESTMENTS**

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The municipality does not have any money **that complies with the definition of investment**. Monies that are not needed are put in call accounts to attract interest.

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## **18. CONTRACTS HAVING FUTURE BUDGETARY IMPLICATIONS**

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The municipality does not have any roll – over contracts with budget implications.

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## **19. CAPITAL EXPENDITURE AND PREVIOUSLY DELAYED PROJECTS**

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Capital expenditure details are listed in supporting tables 34 to SA37. The municipality do not have any projects that were delayed in previous financial years.

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## **20. ANNUAL BUDGETS AND SERVICE DELIVERY AGREEMENTS- MUNICIPAL ENTITIES AND OTHER EXTERNAL MECHANISMS**

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### **20.1 Entities**

The municipality has NEDA as an entity.



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### **20.2 Other External Service Delivery Mechanisms.**

The municipality has no other service delivery agreements with external parties for the delivery of the Municipality's services except the one for external securities.



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## **21. LEGISLATION COMPLIANCE STATUS**

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### **Municipal Finance Management Act - No 56 of 2003**

The MFMA became effective on 1<sup>st</sup> July 2004. The Act modernises budget and financial management practices within the overall objective of maximising the capacity of municipalities to deliver services. The MFMA covers all aspects of municipal finance including budgeting, supply chain management and financial reporting. The various sections of the Act are phased in according to the designated financial management capacity of municipalities. Raymond Mhlaba municipality has been designated as a low capacity municipality. The MFMA is the foundation of the municipal financial management reforms which municipalities are implementing.

#### **The MFMA and the budget**

The following explains the budgeting process in terms of the requirements in the MFMA. It is based on National Treasury's guide to the MFMA.

#### The budget preparation process

*The Mayor must lead the budget preparation process through a co-ordinated cycle of events that commences at least ten months prior to the start of each financial year.*

#### Overview

The MFMA requires a Council to adopt three-year capital and operating budgets that take into account, and are linked to, the municipality's current and future development priorities and other finance-related policies (such as those relating to free basic service provision).

These budgets must clearly set out revenue by source and expenditure by vote over three years and must be accompanied by performance objectives for revenue and expenditure, a cash flow statement and any particulars on borrowings, investments, municipal entities, service delivery agreements, grant allocations and details of employment costs.

The budget may be funded only from reasonable estimates of revenue and cash-backed surplus funds from the previous year and borrowings (the latter for capital items only).

#### Budget preparation timetable

The first step in the budget preparation process is to develop a timetable of all key deadlines relating to the budget and to review the municipality's IDP and budget-related policies.

The budget preparation timetable is prepared by senior management and tabled by the Mayor for Council adoption by 31 August (ten months before the commencement of the next budget year).



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### Budget preparation and review of IDP and policy

The Mayor must co-ordinate the budget preparation process and the review of Council's IDP and budget-related policy, with the assistance of the municipal manager. The Mayor must ensure that the IDP review forms an integral part of the budget process and that any changes to strategic priorities as contained in the IDP document have realistic projections of revenue and expenditure. In developing the budget, the management must take into account national and provincial budgets, the national fiscal and macro-economic policy and other relevant agreements or Acts of Parliament. The Mayor must consult with the relevant district Council and all other local municipalities in that district as well as the relevant provincial treasury and the National Treasury when preparing the budget, and must provide the National Treasury and other government departments with certain information on request.

This process of development should ideally occur between August and November, so that draft consolidated three-year budget proposals, IDP amendments and policies can be made available during December and January. This allows time during January, February and March for preliminary consultation and discussion on the draft budget.

### Tabling of the draft budget

The initial draft budget must be tabled by the Mayor before Council for review by 31 March.

### Publication of the draft budget

Once tabled at Council, the Municipal Manager must make public the appropriate budget documentation and submit it to National Treasury and the relevant provincial treasury and any other government departments as required. At this time, the local community must be invited to submit representations on what is contained in the budget.

### Opportunity to comment on draft budget

When the draft budget is tabled, Council must consider the views of the local community, the National Treasury and the relevant provincial treasury and other municipalities and government departments that may have made submissions on the budget.

### Opportunity for revisions to draft budget

After considering all views and submissions, Council must provide an opportunity for the Mayor to respond to the submissions received and if necessary to revise the budget and table amendments for Council's consideration.

Following the tabling of the draft budget at the end of March, the months of April and May should be used to accommodate public and government comment and to make any revisions that may be necessary. This may take the form of public hearings, Council debates, formal or informal delegations to the National Treasury, provincial treasury and other municipalities, or any other consultative forums designed to address stakeholder priorities.



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### Adoption of the annual budget

The Council must then consider the approval of the budget by 31 May and must formally adopt the budget by 30 June. This provides a 30-day window for Council to revise the budget several times before its final approval.

If a Council fails to approve its budget at its first meeting, it must reconsider it, or an amended draft, again within seven days and it must continue to do so until it is finally approved – before 1 July.

Once approved, the Municipal Manager must place the budget on the municipality's website within five days.

### **BUDGET IMPLEMENTATION**

#### Implementation management – the Service Delivery and Budget Implementation Plan (SDBIP)

The Municipal Manager must within fourteen days of the approval of the annual budget (by 14 July at the latest) submit to the Mayor for approval a draft SDBIP and draft annual performance agreements for all pertinent senior staff.

An SDBIP is a detailed plan for implementing the delivery of municipal services contemplated in the annual budget and should indicate monthly revenue and expenditure projections and quarterly service delivery targets and performance indicators.

The Mayor must approve the draft SDBIP within 28 days of the approval of the annual budget (by 28 July at the latest).

This plan must then be monitored by the Mayor and reported on to Council on a regular basis.

#### Managing the implementation process

The municipal manager is responsible for implementation of the budget and must take steps to ensure that all spending is in accordance with the budget and that revenue and expenditure are properly monitored.

#### Variation from budget estimates

Generally, Councils may incur expenditure only if it is in terms of the budget, within the limits of the amounts appropriated against each budget vote – and in the case of capital expenditure, only if Council has approved the project.

Expenditure incurred outside of these parameters may be considered to be unauthorised or, in some cases, irregular or fruitless and wasteful. Unauthorised expenditure must be reported and may result in criminal proceedings.

#### Revision of budget estimates – the adjustments budget

It may be necessary on occasion for a Council to consider a revision of its original budget, owing to material and significant changes in revenue collections, expenditure patterns, or forecasts thereof for the remainder of the financial year.

In such cases a municipality may adopt an adjustments budget, prepared by the municipal manager and submitted to the Mayor for consideration and tabling at Council for adoption.



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The adjustments budget must contain certain prescribed information, it may not result in further increases in taxes and tariffs and it must contain appropriate justifications and supporting material when approved by Council.

### **Requirements of the MFMA relating to the contents of annual budgets and supporting documentation**

Section 17 of the MFMA stipulates that an annual budget of a municipality must be a schedule in the prescribed format and sets out what must be included in that format. In its MFMA circular 48, National Treasury set out detailed guidance on the contents of budget documentation and the supporting schedules. Raymond Mhlaba Municipality has made every effort to comply with the circular.

The following table shows how Raymond Mhlaba Municipality complies with the disclosure requirements of section 17 of the MFMA.

<b>Requirement</b>	<b>Disclosure in budget documentation</b>
Schedule of reasonably anticipated revenue for the budget year from each revenue source	A4
Schedule showing appropriations of expenditure for the budget year under the different votes of the Municipality	A3
Schedule setting out indicative revenue per revenue source and projected expenditure by vote for the two financial years following the budget year	A3 and A4
Schedule setting out- (i) estimated revenue and expenditure by vote for the current year and (ii) Actual revenue and expenditure by vote for the financial year preceding the current year.	A3 and A4
Draft resolutions - (i) approving the budget of the Municipality (ii) imposing any municipal tax and setting any municipal tariffs as may be required for the budget year and (iii) Approving any other matters that may be prescribed.	Section 4
Measurable performance objectives for revenue from each source and for each vote in the budget,	Section 22 and SA 7



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taking into account the Municipality's Integrated Development Plan.	
Projection of cash flow for the budget year by revenue source broken down per month	SA 25 – SA 26
Proposed amendments to the Municipality's integrated development plan following the annual review of the IDP in terms of section 34 of the Municipal Systems Act	Section 9
Particulars of the Municipality's investments	Section 17 and SA 16
Any prescribe information on municipal entities under the sole or shared control of the Municipality	SA31
Particulars of all proposed new municipal entities which the Municipality intends to establish or in which the Municipality intends to participate	SA31
Particulars of any proposed service delivery agreements, including material amendments to existing service delivery agreements	Section 20
Particulars of any proposed allocations or grants by the municipality to- (i) other municipalities (ii) any municipal entities and other external mechanisms assisting the municipality in the exercise of its functions or powers (iii) any other organs of state (iv) any organisations or bodies referred to in section 67 (1) (bodies outside Government)	Section 14
The proposed cost to the municipality for the budget year of the salary, allowances and benefits of- (i) each political office bearer of the Municipality (ii) Councillors of the municipality (iii) the municipal manager, the chief financial officer, each senior manager of the municipality and any other official of the municipality having a remuneration package greater than or equal to that of a senior manager	Section 15
The proposed cost for the budget year to a municipal entity under the sole or shared control of the Municipality of the salary, allowances and benefits of- (i) each member of the entity's board of directors and (ii) the chief executive officer and each senior manager of the entity	SA forms



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The proposed cost for the budget year to a municipal entity under the sole or shared control of the Municipality of the salary, allowances and benefits of- (i) each member of the entity's board of directors and (ii) the chief executive officer and each senior manager of the entity	SA forms
Any other supporting documentation as may be prescribed	SA forms

### **Other Legislation**

In addition to the MFMA, the following legislation also influences municipal budgeting;

#### The Division of Revenue Act 2010 and Provincial Budget Announcements

Three year national allocations to local government are published per municipality each year in the Division of Revenue Act. The Act places duties on municipalities in addition to the requirements of the MFMA, specifically with regard to reporting obligations.

Allocations to the Municipality from Provincial Government are announced and published in the Provincial budget.

Section 18 of the MFMA states that annual budgets may only be funded from reasonably anticipated revenues to be collected. The provision in the budget for allocations from National and Provincial Government should reflect the allocations announced in the DORA or in the relevant Provincial Gazette.

#### The Municipal Systems Act - No 32 of 2000 and Municipal Systems Amendment Act no 44 of 2003

One of the key objectives of the Municipal Systems Act is to ensure financially and economically viable communities. The requirements of the Act link closely to those of the MFMA. In particular, the following requirements need to be taken into consideration in the budgeting process;

- Chapters 4 and 5 relating to community participation and the requirements for the Integrated Development Planning process.
- Chapter 6 relates to performance management which links with the requirements for the budget to contain measurable performance objectives and quarterly performance targets in the Service Delivery and Budget Implementation Plan.
- Chapter 8 relates to the requirement to produce a tariff policy.



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### **22. OTHER SUPPORTING DOCUMENTS**

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More details on the budget can be found in the supporting tables SA 1 – SA 38

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### **23. OTHER BUDGET DOCUMENTS**

#### **ANNEXURE B**

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23.1. Tariff List

23.2. Service Standards